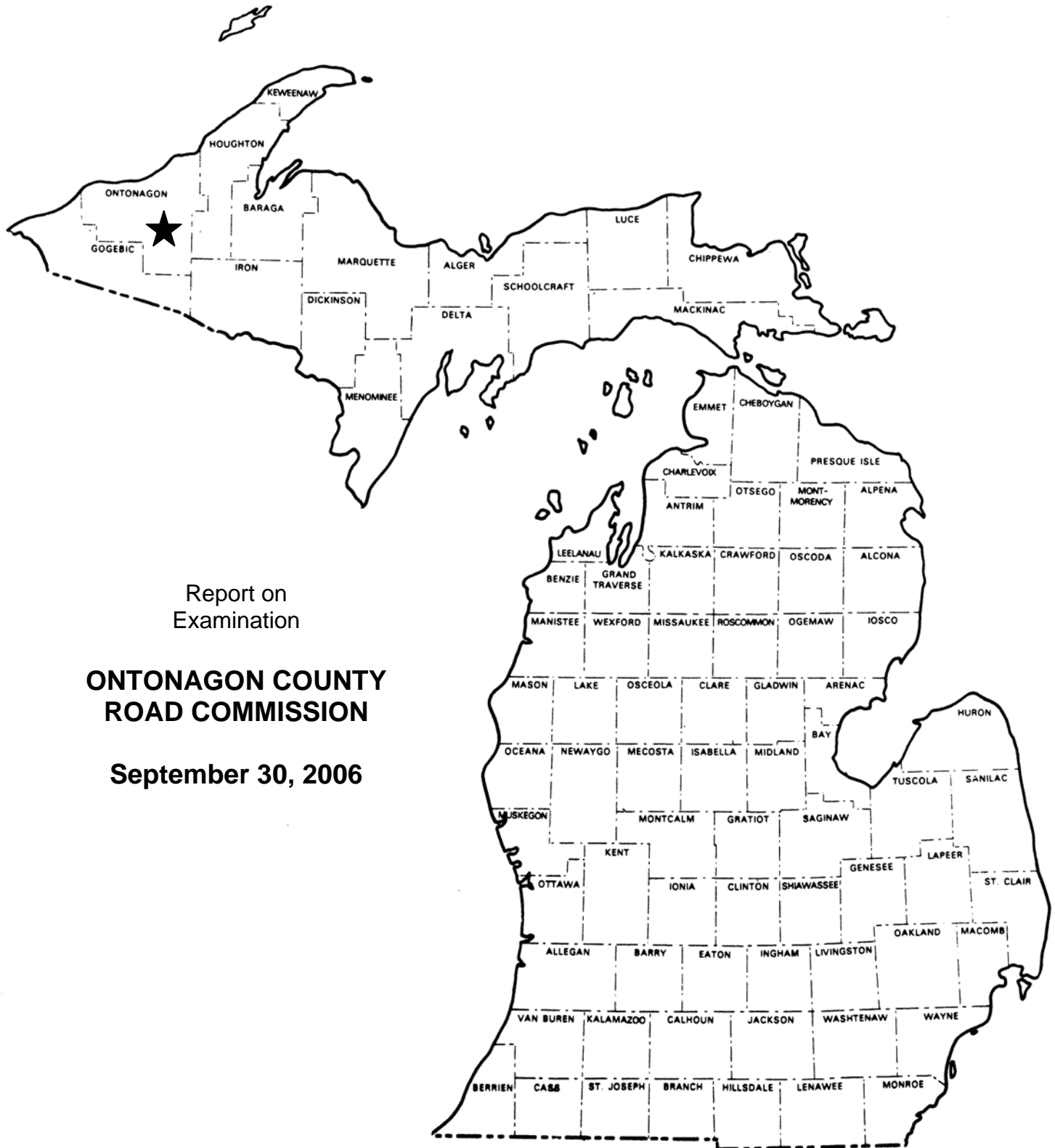


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



Report on
Examination

**ONTONAGON COUNTY
ROAD COMMISSION**

September 30, 2006

ONTONAGON COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

Donald Bussiere
Chairperson

Otto Dickow
Vice Chairperson

John Brunton
Member

Michael Maloney, P.E.
Engineer/Manager

Robert J. Bessen
Business Manager

COUNTY POPULATION--2000
7,818

STATE EQUALIZED VALUATION--2005
\$324,182,253



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 1, 2007

Ontonagon County Road Commission
Board of County Road Commissioners
414 Spar Street
Ontonagon, Michigan 49953

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying financial statements of the governmental activities of the Ontonagon County Road Commission, a component unit of Ontonagon County, Michigan, as of and for the year ended September 30, 2006, which comprises the Road Commission's basic financial statements. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Ontonagon County Road Commission as of September 30, 2006 and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated February 1, 2007 on our consideration of the Ontonagon County Road Commission's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial

reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 through 6 and the budget comparison information in Exhibits G and H are not part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprises the Ontonagon County Road Commission's basic financial statements. The accompanying supplemental and related information presented as Exhibits I through K is for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

ONTONAGON COUNTY ROAD COMMISSION

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ONTONAGON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

The Ontonagon County Road Commission's discussion and analysis is designed to: a) assist the reader in focusing on significant financial issues; b) provide an overview of the Road Commission's financial activity; c) identify changes in the Road Commission's financial position (its ability to address the next and subsequent year challenges); d) identify any material deviations from the approved budget; and e) identify any issues or concerns.

Overview of the Financial Statements

This annual report consists of four parts--management's discussion and analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two kinds of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed.
- The remaining statements are fund financial statements that focus on individual funds; reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the year's revenues and expenses are taken into account regardless of when cash is received or paid.

The two statements mentioned above report the Road Commission's net assets and changes in them. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating.

ONTONAGON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Report the Road Commission's Major Fund

The fund financial statements begin on page seven and provides detailed information about the major fund. The Road Commission currently has only one fund, the General Operations Fund, in which all of the Road Commission's activities are accounted. The General Operations Fund is a governmental fund type.

- **Governmental Fund**--The governmental fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund in a reconciliation following the fund financial statements.

The Road Commission as a Whole

The Road Commission's net assets increased approximately 20.71% or \$922,235 from \$4,453,422 to \$5,375,657 for the year ended September 30, 2006. The net assets and change in net assets are summarized below.

Restricted net assets, those restricted mainly for Act 51 purposes, increased \$432,805 due to the state buyout funds received. The investment in capital assets-net of related debt increased by \$489,430, which was primarily due to the current year's \$888,883 increase in infrastructure, \$239,831 increase in equipment, and \$639,284 decrease due to depreciation.

Net assets as of year ended September 30, 2006, are as follows:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>Percentage</u>
Current and Other Assets	\$2,340,589	\$2,978,505	\$ 637,916	27.25%
Net Capital Assets	<u>3,758,279</u>	<u>4,247,709</u>	<u>489,430</u>	<u>13.02%</u>
Total Assets	<u>6,098,868</u>	<u>7,226,214</u>	<u>1,127,346</u>	<u>18.48%</u>
Current Liabilities	577,608	837,522	259,914	31.03%
Noncurrent Liabilities	<u>1,067,838</u>	<u>1,013,035</u>	<u>(54,803)</u>	<u>-5.41%</u>
Total Liabilities	<u>1,645,446</u>	<u>1,850,557</u>	<u>205,111</u>	<u>12.47%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	3,758,279	4,247,709	489,430	13.02%
Restricted	<u>695,143</u>	<u>1,127,948</u>	<u>432,805</u>	<u>62.26%</u>
Total Net Assets	<u>\$4,453,422</u>	<u>\$5,375,657</u>	<u>\$ 922,235</u>	<u>20.71%</u>

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended September 30, 2006 follows:

	<u>2005</u>	<u>2006</u>	<u>Variance</u>	<u>%</u>
Program Revenue				
Federal Grants	\$ 37,449		\$ (37,449)	-100.00%
State Grants	2,547,723	\$ 3,761,562	1,213,839	47.64%
Contributions From Local Units	71,051	156,180	85,129	119.81%
Charges for Services	2,139,140	1,661,899	(477,241)	-22.31%
Investment Earnings	14,968	29,395	14,427	96.39%
Other	1,800	2,304	504	28.00%
General Revenue				
Taxes	806,248	842,127	35,879	4.45%
Insurance Recoveries	8,639		(8,639)	-100.00%
Gain on Equipment Disposal	120,295		(120,295)	0.00%
Total Revenue	<u>5,747,313</u>	<u>6,453,467</u>	<u>706,154</u>	<u>12.29%</u>
Expenses				
Primary Road Maintenance	871,130	1,017,191	146,061	16.77%
Local Road Maintenance	1,398,043	1,739,774	341,731	24.44%
State Trunkline Maintenance	1,896,315	1,659,934	(236,381)	-12.47%
Net Equipment Expense	575,218	534,411	(40,807)	-7.09%
Net Administrative Expense	301,558	314,188	12,630	4.19%
Infrastructure Depreciation	150,064	231,965	81,901	54.58%
Compensated Absences	(16,363)	33,769	50,132	-306.37%
Total Expenses	<u>5,175,965</u>	<u>5,531,232</u>	<u>355,267</u>	<u>6.86%</u>
Increase in Net Assets	<u>\$ 571,348</u>	<u>\$ 922,235</u>	<u>\$ 350,887</u>	<u>61.41%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county which are earmarked by law for road and highway purposes.

For the year ended September 30, 2006, the fund balance of the General Operations Fund increased \$468,327. Total operating revenues were \$6,455,220, an increase of \$716,357 as compared to last year. This change in revenues resulted primarily from an increase from state buyout funds.

ONTONAGON COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Total expenditures were \$5,986,893, an increase of \$31,373 as compared to last year. This change in expenditures is primarily the decrease in capital outlay in the current year despite increased road projects.

	2005	2006	Variance	%
Revenues				
Taxes	\$ 806,437	\$ 843,880	\$ 37,443	4.64%
Federal Grants	37,449		(37,449)	-100.00%
State Grants	2,547,723	3,761,562	1,213,839	47.64%
Contributions From Local Units	71,051	156,180	85,129	119.81%
Charges for Services	2,139,140	1,661,899	(477,241)	-22.31%
Interest and Rents	14,968	29,395	14,427	96.39%
Other Revenue	122,095	2,304	(119,791)	-98.11%
Total Revenues	<u>5,738,863</u>	<u>6,455,220</u>	<u>716,357</u>	<u>12.48%</u>
Expenditures				
Public Works	5,260,702	5,747,062	486,360	9.25%
Net Capital Outlay	<u>694,818</u>	<u>239,831</u>	<u>(454,987)</u>	<u>-65.48%</u>
Total Expenditures	<u>5,955,520</u>	<u>5,986,893</u>	<u>31,373</u>	<u>0.53%</u>
Excess of Expenditures Over Revenues	<u>(216,657)</u>	<u>468,327</u>	<u>684,984</u>	<u>316.16%</u>
Other Financing Sources				
Insurance Recoveries	<u>8,639</u>		<u>(8,639)</u>	<u>100.00%</u>
Total Other Financing Sources	<u>8,639</u>	<u>-</u>	<u>(8,639)</u>	<u>100.00%</u>
Excess of Revenues and Other Financing Sources Over Expenditures	(208,018)	468,327	676,345	325.14%
Fund Balance--Beginning	<u>1,464,260</u>	<u>1,256,242</u>	<u>(208,018)</u>	<u>-14.21%</u>
Fund Balance--Ending	<u>\$ 1,256,242</u>	<u>\$ 1,724,569</u>	<u>\$ 468,327</u>	<u>37.28%</u>

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorized large expenditures when requested throughout the year.

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The original revenue budget for 2006 was less than the actual revenue by \$755,220. This was due, in large part, to the buyout of Federal funds which was not budgeted.

The Road Commission's original expenditures were projected at \$6,800,000, while actual expenditures were \$5,986,893. This resulted in total expenditures being under budget by \$813,107. This was primarily due to the reduction in capital outlay.

Capital Assets and Debt Administration

Capital Assets

As of September 30, 2006, the Road Commission had \$4,247,709 invested in capital assets as follows:

	2005	2006	Total Percentage Change 2005-2006
Capital Assets Not Being Depreciated			
Infrastructure--Land	\$ 13,412	\$ 13,412	0.00%
Infrastructure--Land Improvements	39,026	59,961	53.64%
Subtotal	52,438	73,373	39.92%
Capital Assets Being Depreciated			
Depletable Assets	1,408		-100.00%
Buildings	2,247,989	2,247,989	0.00%
Equipment--Road	6,343,637	6,524,972	2.86%
Shop, Office and Engineer Equipment	229,145	235,535	2.79%
Infrastructure	1,894,150	2,762,098	45.82%
Subtotal	10,716,329	11,770,594	9.84%
Total Capital Assets	10,768,767	11,843,967	9.98%
Total Accumulated Depreciation	(7,010,488)	(7,596,258)	8.36%
Total Net Capital Assets	\$ 3,758,279	\$ 4,247,709	13.02%

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$888,883. The infrastructure recorded during 2006 will be depreciated in the following year. The infrastructure is financed through Federal, State and local contributions.

ONTONAGON COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

This year's major capital asset additions included the following:

Various Resurfacing Projects and Related Land/Right-of-Way	\$ 888,883
Trucks/Equipment	233,441
Shop Equipment	<u>6,390</u>
Total Additions	<u><u>\$1,128,714</u></u>

There were no installment purchase agreements entered into during 2006; all the equipment was acquired with Road Commission funds.

During 2006, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$53,514, related depreciation of \$53,514, and net book value of \$0.

Debt

The Road Commission currently experiences a relatively debt free status. The Road Commission currently has long-term debt in the amount of \$602,360, an increase of \$33,769 from the prior year which represents compensated absences payable at September 30, 2006.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derives approximately 41% of its revenues from the fuel tax collected. The recent economic downturn has resulted in less consumption of fuel and consequently less Michigan Transportation Fund tax to be distributed.

The board realizes, and the reader should understand, that there are not sufficient funds available to repair and/or rebuild every road in Ontonagon County's transportation system; therefore, the board attempts to spend the public's money wisely and equitably and in the best interest of the motoring public and the citizens of Ontonagon County.

Contacting the Road Commission's Financial Management

This financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Ontonagon County Road Commission administrative offices at 415 Spar Street, Ontonagon, Michigan 49953.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
September 30, 2006

EXHIBIT A

ASSETS

Cash	\$ 1,270,029
Taxes Receivable--Delinquent Personal Property	5,739
Accounts Receivable	
Sundry Accounts	53,833
State--Trunkline Maintenance	53,756
Michigan Transportation Fund	328,891
State--Other	23,422
Due on County Road Agreements	156,180
Inventories	
Road Materials	799,645
Equipment Parts and Materials	287,010
Capital Assets (Net of Accumulated Depreciation)	<u>4,247,709</u>
Total Assets	<u>7,226,214</u>

LIABILITIES

Current Liabilities	
Accounts Payable	441,567
Accrued Liabilities	77,079
Deferred Revenue	
Forest Road Funds	318,876
Noncurrent Liabilities	
Advances From State	410,675
Vested Employee Benefits Payable	<u>602,360</u>
Total Liabilities	<u>1,850,557</u>

NET ASSETS

Investment in Capital Assets--Net of Related Debt	4,247,709
Restricted for County Roads	<u>1,127,948</u>
Total Net Assets	<u>\$ 5,375,657</u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006

EXHIBIT B

Program Expenses	
Primary Road Routine and Preventive Maintenance	\$ 1,017,191
Local Road Routine and Preventive Maintenance	1,739,774
State Trunkline Maintenance and Nonmaintenance	1,659,934
Net Equipment Expense	534,411
Net Administrative Expense	314,188
Infrastructure Depreciation	231,965
Compensated Absences	<u>33,769</u>
Total Program Expenses	<u>5,531,232</u>
Program Revenue	
Charges for Services	
Charges for Services	1,661,899
Reimbursements	2,304
Operating Grants and Contributions	
Michigan Transportation Funds	3,436,917
Investment Earnings	29,395
Capital Grants and Contributions	
State Grants	324,645
Contributions From Local Units	<u>156,180</u>
Total Program Revenue	<u>5,611,340</u>
Net Program Revenue	<u>80,108</u>
General Revenue	
Taxes	<u>842,127</u>
Total General Revenue	<u>842,127</u>
Change in Net Assets	922,235
Net Assets	
Beginning of Year	<u>4,453,422</u>
End of Year	<u><u>\$ 5,375,657</u></u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION
BALANCE SHEET
September 30, 2006

EXHIBIT C

	GOVERNMENTAL FUND TYPE
	<u>General Operating Fund</u>
<u>ASSETS</u>	
Cash	\$1,270,029
Taxes Receivable--Delinquent Personal Property	5,739
Accounts Receivable	
State Trunkline Maintenance	53,756
Michigan Transportation Fund	328,891
State Highway--Other	23,422
Due on County Road Agreements	156,180
Sundry Accounts	53,833
Inventories	
Road Materials	799,645
Equipment Parts and Materials	<u>287,010</u>
Total Assets	<u><u>\$2,978,505</u></u>
<u>LIABILITIES AND FUND EQUITY</u>	
Liabilities	
Accounts Payable	\$ 441,567
Accrued Liabilities	77,079
Advances From State	410,675
Deferred Revenue--Delinquent Property Taxes	5,739
Deferred Revenue--Forest Road Funds	<u>318,876</u>
Total Liabilities	<u>1,253,936</u>
Fund Equities	
Fund Balance	
Reserved for Self-Insurance	115,497
Reserved for Inventory	1,086,655
Unreserved and Undesignated	<u>522,417</u>
Total Fund Equities	<u>1,724,569</u>
Total Liabilities and Fund Equities	<u><u>\$2,978,505</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND BALANCE
TO THE STATEMENT OF NET ASSETS
For the Year Ended September 30, 2006**

EXHIBIT D

Total Governmental Fund Balance	\$1,724,569
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Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,247,709
---	-----------

The long-term liability for vested employee benefits payable not available to pay for current period expenditures and, therefore, are not reported in the funds.	(602,360)
--	-----------

Deferred delinquent personal property tax revenue is not considered "available" in governmental funds, but is considered earned and is recognized as revenue in the Statement of Activities.	<u>5,739</u>
--	--------------

Net Assets of Governmental Activities	<u><u>\$5,375,657</u></u>
---------------------------------------	---------------------------

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Year Ended September 30, 2006

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Taxes	\$ 843,880
State Aid	3,761,562
Contributions From Local Units	156,180
Charges for Services	1,661,899
Interest and Rents	29,395
Other Revenue	<u>2,304</u>
Total Revenues	<u>6,455,220</u>
Expenditures	
Public Works	5,747,062
Capital Outlay	<u>239,831</u>
Total Expenditures	<u>5,986,893</u>
Excess of Revenues Over (Under) Expenditures	<u>468,327</u>
Fund Balance--October 1, 2005	<u>1,256,242</u>
Fund Balance--September 30, 2006	<u><u>\$ 1,724,569</u></u>

The Notes to Financial Statements are an integral part of this statement.

**ONTONAGON COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2006**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds	\$ 468,327
Amounts reported for governmental activities in the statement are different because:	
Governmental funds report capital outlays as expenditures.	
However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	489,430
Equipment retirement is recorded as an expenditure credit in governmental funds, but not recorded as an expense in the Statement of Activities.	
Revenues earned but not available for current resources are not reported in the funds	
Personal Property Taxes	(1,753)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. (Increase in compensated absences and decrease in interest expense)	<u>(33,769)</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 922,235</u></u>

The Notes to Financial Statements are an integral part of this statement.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

The accounting policies of the Ontonagon County Road Commission conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Ontonagon County Road Commission.

NOTE A--REPORTING ENTITY

The Ontonagon County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by a 3-member board of county road commissioners appointed by the county board of commissioners. The Road Commission may not issue debt without the county's approval and the property tax levy for road purposes is subject to county board of commissioners' approval.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Ontonagon County Road Commission, a discretely presented component unit of Ontonagon County.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Ontonagon County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets--net of related debt, or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: 1) charges to customers or applicants for goods or services or privileges provided; 2) Michigan Transportation Funds (MTF), State/Federal contracts, and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan Transportation Funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Cash, Cash Equivalents and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to road construction and maintenance, equipment repairs and operations, as used.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Ontonagon County Road Commission as assets with an estimated useful life in excess of one year. Such assets are recorded at historical costs or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Property Taxes

The 2005 taxable valuation was \$201,059,714 on which ad valorem taxes of 4.7447 mills were levied for the Road Commission and the Village of Ontonagon's snow removal and road construction purposes. In addition, specific taxes are levied under the Industrial Facilities Tax Act and Commercial Forest Reserve Act.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The county's 2005 ad valorem tax was levied and collectible on December 1, 2005. It is the county's policy to recognize revenues from the current tax levy in the fiscal year levied when the proceeds of the levy are budgeted and made available for financing operations. The 2005 tax levy for Road Commission operations was recorded as revenue during the year ended September 30, 2006 totaling \$843,880 for all taxes received.

Interest-Bearing Deposits

Interest-bearing deposits are recorded at cost. Interest earned is recorded as revenue when the investment matures, or when credited by the financial institution to the interest-bearing account.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief financial officer prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board conducts a public budget hearing and subsequently adopts an operating budget. The budget is amended as necessary during the year and is approved by the board. The budget is prepared on the modified accrual basis of accounting, which is the same basis as the financial statements.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS

Deposits are carried at cost. Deposits of the County Road Fund are in various banks in the name of the county treasurer. MCL 129.91 et seq., authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities, and other obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper within the two highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50% of any one fund. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The Road Commission deposits are in accordance with statutory authority.

The board of county road commissioners has adopted an investment policy similar to the county's policy in accordance with investment provisions in Public Act 20 of 1943.

At year end (and during the year), the Road Commission did not have any investments; the deposits were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 1,269,929
Petty Cash	<u>100</u>
Total	<u><u>\$ 1,270,029</u></u>

The bank balance of the Road Commission's deposits is \$1,293,870, of which \$400,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy authorizes investment in all those that are authorized by law. As stated above, the Road Commission did not have any investments in the fiscal year ended September 30, 2006.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Road Commission's investment policy does not contain specific provisions to limit their exposure to credit risk.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Road Commission's investment policy does not contain specific provisions to limit the Road Commission's exposure to interest rate risk.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of an entity's investment in a single issuer where the investment is 5% or greater.

The Road Commission's investment policy requires assets to be diversified to eliminate the risk of loss resulting from over concentration in a specific maturity, individual financial institution(s) or a specific class of securities.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law does not contain requirements that would limit the exposure to custodial credit risk for deposits. However, the asset diversification requirements included in the Road Commission's investment policy would limit, to some extent, exposure to custodial credit risk for deposits.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law does not contain legal requirements that would limit the exposure to custodial credit risk for investments. However, the Road Commission's investment policy does contain a safekeeping and custody section that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools. The Road Commission is not exposed to custodial credit risk for investments.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS

The following is a summary of changes in the capital assets:

	Balances 10/01/05	Additions	Deductions	Balances 09/30/06
Capital Assets Not Being Depreciated				
Infrastructure--Land	\$ 13,412			\$ 13,412
Infrastructure--Land Improvements	39,026	\$ 20,935		59,961
Subtotal	52,438	20,935	\$ -	73,373
Capital Assets Being Depreciated				
Depletable Assets	1,408		1,408	-
Buildings	2,247,989			2,247,989
Road Equipment	6,343,637	233,441	52,106	6,524,972
Shop Equipment	140,881	6,390		147,271
Office Equipment	68,909			68,909
Engineer's Equipment	19,355			19,355
Infrastructure--Bridges	11,952			11,952
Infrastructure--Roads	1,882,198	867,948		2,750,146
Total	10,716,329	1,107,779	53,514	11,770,594
Less Accumulated Depreciation				
Depletable Assets		1,408	1,408	-
Building	1,194,846	50,904		1,245,750
Road Equipment	5,355,073	345,301	52,106	5,648,268
Shop Equipment	127,843	5,228		133,071
Office Equipment	56,872	4,149		61,021
Engineer's Equipment	18,752	329		19,081
Infrastructure--Bridges	1,494	1,494		2,988
Infrastructure--Roads	255,608	230,471		486,079
Total	7,010,488	639,284	53,514	7,596,258
Net Capital Assets Being Depreciated	3,705,841	1,107,779	639,284	4,174,336
Total Net Capital Assets	<u>\$3,758,279</u>	<u>\$ 1,128,714</u>	<u>\$ 639,284</u>	<u>\$4,247,709</u>

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to the following activities:

	<u>Amount</u>
Net Equipment Expense	
Direct Equipment	\$ 345,301
Indirect Equipment	
Shop Building	10,413
Storage Building	37,652
Shop Equipment	5,228
Net Administrative Expense	
Buildings	2,839
Office Equipment and Furniture	4,149
Engineers Equipment	329
Depletable Assets	1,408
Infrastructure	<u>231,965</u>
Total Depreciation Expense	<u><u>\$ 639,284</u></u>

NOTE F--LONG-TERM DEBT

The long-term debt of the Road Commission may be summarized as follows:

	<u>Balances</u> <u>10/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balances</u> <u>09/30/06</u>
Vested Employee Benefits			
Vacation Benefits	\$ 69,533	\$ (1,836)	\$ 67,697
Sick Leave Benefits	<u>499,058</u>	<u>35,605</u>	<u>534,663</u>
Total	<u><u>\$568,591</u></u>	<u><u>\$ 33,769</u></u>	<u><u>\$602,360</u></u>

Vacation Benefits

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the number of years of service of the employee. The annual vacation benefits earned by each employee are credited on the employee's employment anniversary date. Employees are required to use their vacation benefits within 1 year, except those employees earning 3 or 4 weeks of vacation may be paid at their anniversary date for any unused portion of those weeks at their regular rate of pay, with the approval of the engineer or foreman.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

Sick Leave Benefits

Road Commission employment policies provide that each regular employee shall earn sick leave with pay at the rate of 1 day per month, with an unlimited accumulation. Upon permanent separation from employment, employees hired prior to July 1, 1994 shall be paid at their regular rate of pay for 100% of any accumulated unused sick leave. Those employees hired after July 1, 1994 shall be paid for a maximum of 80 days of accumulated unused sick leave.

NOTE G--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Ontonagon County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS), administered by the State of Michigan. The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation. The most recent period for which actuarial data was available was for the fiscal year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a) State of Michigan. MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by negotiation with the Road Commission's competitive bargaining unit and personnel policy, which does not require employees to contribute to the plan. The Road Commission was required to contribute at an actuarially determined rate, which was 22.39% at December 31, 2003 for the contributions for the calendar year ending December 31, 2005 of the covered payroll.

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE G--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Annual Pension Cost

During the calendar year ended December 31, 2005, the Road Commission's contributions totaling \$437,079 were made in accordance with the contribution requirement determined by the actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 4.5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage Of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 416,971	100%	\$0
2004	441,159	100%	\$0
2005	437,079	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$ 6,433,656	\$11,428,579	\$4,994,923	56%	\$1,903,230	262%
12/31/04	6,989,561	12,980,945	5,991,384	54%	1,938,943	309%
12/31/05	7,456,991	13,496,546	6,039,555	55%	1,968,501	307%

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission has purchased commercial insurance for medical benefits' claims and participates in the Michigan County Road Commission Self-Insurance Pool for claims relating to general liability, excess liability, auto liability, trunkline liability, errors and omissions, physical damage (equipment, buildings and contents) and workers' compensation. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The county road commissions in the State of Michigan established and created a trust fund, known as the Michigan County Road Commission Self-Insurance Pool (Pool) pursuant to the provisions of Public Act 138 of 1982. The Pool is to provide for joint and cooperative action relative to members' financial and administrative resources for the purpose of providing risk management services along with property and liability protection. Membership is restricted to road commissions and related road commission activities with the State. The Ontonagon County Road Commission became a charter member in October 1, 2001.

The Michigan County Road Commission Self-Insurance Pool program operates as a common risk-sharing management program for road commissions in Michigan; member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. If for any reason the Pool's resources available to pay losses are depleted, the payment of all unpaid losses of the member is the sole obligation of the member.

NOTE I--RESERVE FOR SELF-INSURANCE

The Ontonagon County Board of Road Commissioners' policy is to self-insure for employee group life coverage. The self-insurance reserve account was established in 1992, and is funded by annual transfers of amounts equal to what the approximate premium would be for life insurance coverage, plus the annual interest earnings on the reserve account balance. The Road Commission's policy provides that the transfers of premium amounts will be discontinued when the annual interest earnings on the reserve account is greater than the estimated premium cost. All group life benefit payments are expensed when paid and closed to the reserve account at year end.

A summary of the changes in the reserve for self-insurance for the year ended September 30, 2006 is as follows:

Reserve Balance--October 1, 2004	\$ 120,497
Less: 2005/2006 Death Benefit Payment	<u>(5,000)</u>
Reserve Balance--September 30, 2006	<u><u>\$ 115,497</u></u>

ONTONAGON COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note I, the Ontonagon County Road Commission provides post-employment health care benefits and life insurance benefits in accordance with the provisions of Article 14, Section 2(E), and Section 4 of the union agreement. The post-employment health care benefit provides that the Road Commission shall pay the full hospitalization insurance plan premium for the retirees for a five-year period from the date of retirement. The Road Commission will pay 25% of the premium on a Blue Cross/Blue Shield Supplemental Insurance Plan or alternate plan capping the alternate plan at 25% of the offered Blue Cross Plan. The post-employment life insurance benefit provides that the Road Commission will provide for term-life insurance coverage of \$1,500 for each Road Commission employee who retired prior to July 1, 1992 and \$5,000 for employees who retired prior to July 1, 2003 and \$10,000 for those retired after that date.

The Road Commission's policy is to finance these benefits on a pay-as-you-go basis. During the year ended September 30, 2006, 15 retirees were eligible for the post-retirement health care benefits at a cost of \$109,113. The Road Commission self-insures for life insurance benefits, which covered 9 retirees for \$1,500, 11 retirees for \$5,000 and 9 retirees for \$10,000 during the year ended September 30, 2006.

NOTE K--DEFERRED COMPENSATION PLAN

The Road Commission offers all its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 457. The assets of the plans were held in trust, (custodial account or annuity contract) as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof for the exclusive benefit of the participants holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer (Ontonagon County Road Commission) for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Road Commission's financial statements.

ONTONAGON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2006

EXHIBIT G

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Taxes				
Property Taxes	\$ 800,000	\$ 845,000	\$ 843,880	\$ (1,120)
State Aid				
Michigan Transportation Fund				
Engineering	10,000	10,000	10,000	-
Primary Road	1,300,000	1,290,817	1,304,497	13,680
Local Road	590,000	651,487	651,487	-
Snow Removal	310,000	345,933	345,933	-
Economic Development Funds				
"E" Forest Road Funds	220,000	220,000	324,645	104,645
State Buyout Funds	700,000	400,000	1,125,000	725,000
Contributions--Local Units				
Townships	50,000	170,000	156,180	(13,820)
Charges for Services				
State Trunkline Maintenance	1,600,000	1,500,000	1,610,072	110,072
State Trunkline--Other	100,000	100,000	49,862	(50,138)
Salvage Sales	5,000	1,000	1,965	965
Interest and Rents				
Interest Earned	10,000	11,000	29,395	18,395
Other Revenue				
Reimbursements	5,000	1,000	2,304	1,304
Total Operating Revenue	5,700,000	5,546,237	6,455,220	908,983
Total Revenue	5,700,000	5,546,237	<u>\$6,455,220</u>	<u>\$ 908,983</u>
Fund Balance--October 1, 2005	1,200,000	1,135,744		
Total Budget	<u>\$ 6,900,000</u>	<u>\$6,681,981</u>		

**ONTONAGON COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended September 30, 2006**

EXHIBIT H

	Original Adopted Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 900,000	\$ 350,000	\$ 214,049	\$135,951
Routine and Preventive Maintenance	897,000	1,047,000	1,014,624	32,376
Local Road				
Preservation/Structural Improvements	500,000	800,000	674,833	125,167
Routine and Preventive Maintenance	1,379,000	1,720,000	1,719,198	802
Primary Road Structure				
Routine and Preventive Maintenance	3,000	3,000	2,567	433
Local Road Structure				
Routine and Preventive Maintenance	21,000	21,000	20,576	424
State Trunkline Maintenance	1,450,000	1,611,000	1,610,072	928
State Maintenance--Other	50,000	50,000	49,862	138
Equipment Expense--Net	700,000	525,000		
Direct			\$ 1,221,448	
Indirect			936,644	
Operating			390,104	
Less: Equipment Rentals			(2,023,874)	
			524,322	678
Administrative Expense--Net	300,000	350,000		
Administrative Expense			474,385	
Less: Handling Charges			(10,471)	
Overhead--State			(149,726)	
Purchase Discounts			-	
			314,188	35,812
Capital Outlay--Net	400,000	73,000		
Capital Outlay			239,831	
Less: Depreciation Credits			(397,229)	
Equipment Retirements			-	
			(157,398)	230,398
Contingency	200,000	-	-	-
Total Expenditures	6,800,000	6,550,000	\$5,986,893	\$563,107
Fund Balance--September 30, 2006	100,000	131,981		
Total Budget	\$ 6,900,000	\$ 6,681,981		

**ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended September 30, 2006**

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$1,751,823	\$ 2,165,919	\$ 2,537,478	\$ 6,455,220
Total Expenditures	1,425,221	2,842,014	1,719,658	5,986,893
Excess of Revenues Over (Under) Expenditures	326,602	(676,095)	817,820	468,327
Other Financing Sources (Uses)				
Optional Transfers	(326,602)	326,602		-
Interfund Adjustment		349,493	(349,493)	-
Total Other Financing Sources (Uses)	(326,602)	676,095	(349,493)	-
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	-	-	468,327	468,327
Fund Balance--October 1, 2005	-	-	1,256,242	1,256,242
Fund Balance--September 30, 2006	\$ -	\$ -	\$ 1,724,569	\$ 1,724,569

ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended September 30, 2006

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Taxes				
Property Taxes			\$ 843,880	\$ 843,880
State Aid				
Michigan Transportation Fund				
Engineering	\$ 6,500	\$ 3,500		10,000
Allocation	1,304,497	651,487		1,955,984
Snow Removal		345,933		345,933
Economic Development Funds				
"E" Funds		324,645		324,645
State Buyout Funds	440,826	684,174		1,125,000
Contributions--Local Units				
Townships		156,180		156,180
Charges for Services				
State Trunkline Maintenance			1,610,072	1,610,072
State Trunkline Nonmaintenance			49,862	49,862
Salvage Sales			1,965	1,965
Interest and Rents				
Interest Earned			29,395	29,395
Other Revenue				
Reimbursements			2,304	2,304
Total Operating Revenue	\$ 1,751,823	\$ 2,165,919	\$ 2,537,478	\$ 6,455,220

ONTONAGON COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended September 30, 2006

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 214,049			\$ 214,049
Routine and Preventive Maintenance	1,014,624			1,014,624
Local Road				
Preservation/Structural Improvements		\$ 674,833		674,833
Routine and Preventive Maintenance		1,719,198		1,719,198
Primary Road Structures				
Routine and Preventive Maintenance	2,567			2,567
Local Road Structures				
Routine and Preventive Maintenance		20,576		20,576
State Trunkline Maintenance			\$1,610,072	1,610,072
State Maintenance--Other			49,862	49,862
Equipment Expense--Net (Per Exhibit H)	87,877	219,323	217,122	524,322
Administrative Expense--Net (Per Exhibit H)	106,104	208,084		314,188
Capital Outlay--Net (Per Exhibit H)			(157,398)	(157,398)
Total Expenditures	\$ 1,425,221	\$ 2,842,014	\$1,719,658	\$ 5,986,893



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

February 1, 2007

Ontonagon County Road Commission
Board of County Road Commissioners
414 Spar Street
Ontonagon, Michigan 49953

RE: Report on Internal Control Over Financial Reporting and on Compliance and Other
Matters Based on an Audit of the Financial Statements Performed in Accordance With
Government Auditing Standards

Dear Commissioners:

We have audited the financial statements of the Ontonagon County Road Commission, a component unit of Ontonagon County, as of and for the year ended September 30, 2006, and have issued our report thereon dated February 1, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ontonagon County Road Commission's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Ontonagon County Road Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Ontonagon County Road Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Road Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Road Commission's financial statements that is more than inconsequential will not be prevented or detected by the Road Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Road Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Ontonagon County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information of the Ontonagon County Board of Road Commissioners, the Road Commission's management, others within the Road Commission, Federal and State awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



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